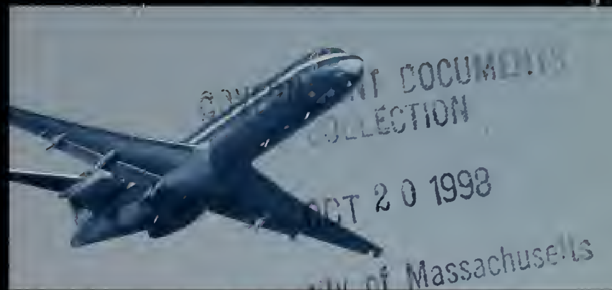


Massport

Getting | the | job | done

ANNUAL REPORT 1997

Message from the Chairman and Executive Director

Mark F. Robinson
Chairman

Mark Robinson

Peter Blute
Executive Director
and CEO

Peter Blute

We've got a big job to do. As the economic engine that powers New England, Massport moves the people and goods that mean new business and profits for the region's economy. But like any engine, transportation facilities need an occasional tune-up to run smoothly and efficiently, and at Massport we're getting the job done. Across the board, Massport's facilities are undergoing the most extensive overhaul in history. Everywhere you look, long-awaited upgrades are well underway to keep New England moving forward in today's competitive world.

At Logan Airport, annual passenger traffic is expected to reach 37.5 million passengers just a decade from now. To ensure Logan is up for this challenge, Massport is moving forward with its $1 billion airport modernization program. We're renovating and expanding our terminals, adding more efficient ground transportation with improved mass transit connections, building new roads and parking garages, and creating convenient linkages for passengers to move quickly and easily throughout the airport.

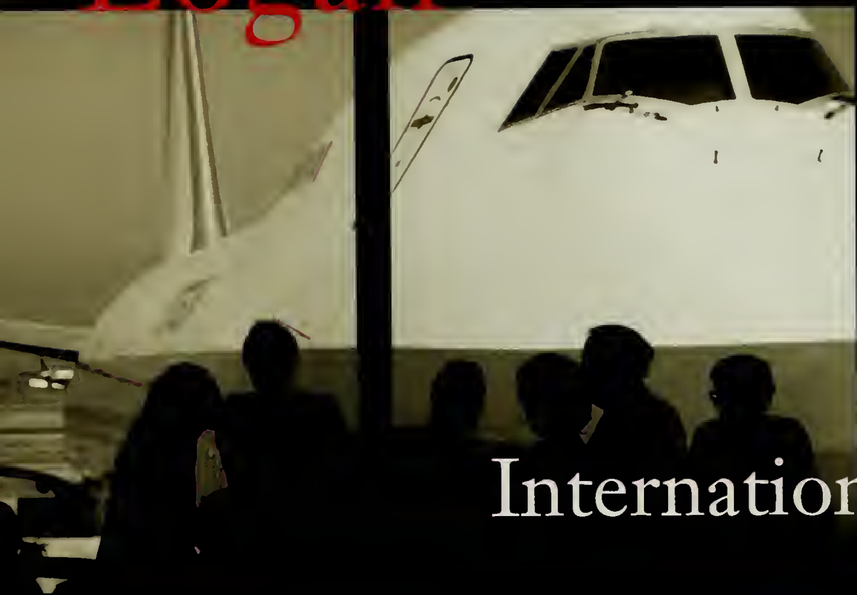
At the Port of Boston, the immense volume of foreign trade crossing the oceans today creates enormous opportunities for seaports able to handle this cargo easily, speedily and cost-effectively. At Massport we're doing what needs to be done to improve the Port's competitive position. We've invested $50 million to upgrade terminal facilities and completed the first phase of harbor dredging to handle the new fleet of deep-draft vessels. Our terminal optimization plan is moving forward on schedule and the ten-lane gate facility added at the Conley Terminal this year will significantly improve turn-around time for cargo.

At the Tobin Memorial Bridge, we've initiated a long-term maintenance program to preserve this vital urban artery for the more than 36,000 motorists who use it each day. We're applying in excess of 23,000 gallons of paint to the 47 year-old Tobin as part of our $25 million restoration project, which uses state-of-the art techniques to protect the environment and the safety of residents.

As Massport extends its horizons far from home we have not forgotten our responsibility to extend a hand to those closest to home. Just last summer, and after four long years of negotiation, we successfully completed mitigation agreements for our Logan modernization program. These agreements provide valuable community resources and presage a new spirit of cooperation between Massport and our neighbors who live near the airport.

This has been a remarkable year of accomplishment for Massport. The scope of projects undertaken to bring our facilities up to 21st Century standards has been unprecedented — as it must be. An agency whose job it is to move others from point A to point B, cannot itself be caught standing still. And as this report will make clear, we're not.

Logan



International Airport

A new Logan International Airport is taking shape in Boston — an airport ready to grab the opportunities, and meet the challenges, of the 21st Century.

Logan has been proudly serving Boston for nearly 75 years. Now, Massport is putting shovels in the ground — improving the airport so that it can power New England in the years to come. With sights on the future, Massport has begun a $1 billion modernization program to prepare Logan to meet 21st Century demand for capacity, efficiency and hospitality.

A better airport is being built, literally from the ground up: new and expanded terminals; more efficient ground transportation systems; improved mass transit connections; improved roads and centralized parking garages; convenient terminal linkages; a plan to reduce air traffic delays; and innovative partnerships with New England airports to more effectively distribute air traffic throughout the region. As the engine that powers New England's economy, Logan's ability to get people and goods in and out of Logan quickly and easily is key to the region's ability to compete.

On any given day, a visitor to the airport will see as many cranes as planes silhouetted against the sky, convincing evidence that Massport's long-range blueprint for airport modernization is making a lasting imprint on Logan.

International Gateway Project

When completed in 2003, the expanded Terminal E will better accommodate widebodied jets. An expanded Federal Inspection facility will be able to process 2,000 passengers an hour.

Roadway System

The opening of the Third Harbor Tunnel has made it easier to get to the airport. International passengers will find congestion around Terminal E vastly relieved when a new two-tiered roadway, with separate roadways for arrival and departure traffic, is finished.

West Garage

The new 3,150-space West Garage will make parking at Logan easier by centralizing a number of remote lots. The new seven-story, $120 million garage will be connected to Terminals A and E via covered, climate-controlled moving walkways — cutting unassisted walking distances significantly. Walkways will also be constructed between the Central Garage and Terminals B and C.

Airport Intermodal Transit Connector

An improved transit system for connecting Logan to Boston's public and private transportation network is a key part of Logan modernization, and integral to Massport's aggressive effort to increase mass transit use by Logan passengers.

Air Cargo

For its air cargo operation, Massport broke ground last summer on a new 61,000 square-foot facility to replace cargo space lost to the Ted Williams Tunnel. Cargo is big business at Logan, where nearly 150 companies ship more than 900 million pounds of cargo through Logan's terminals each year.

Utility Distribution System

Airport efficiency and environmental gains will be achieved through upgrades in heating/cooling plant and utility delivery systems in all airport facilities.

Jet Fuel

A new fuel distribution system planned for Logan will virtually eliminate the need for fuel trucks at the airport. With the proposed new fuel storage facility, underground pipes will bring jet fuels directly to Logan, where a distribution system of underground hydrant connectors will refuel planes at the gate.

Clean Fuel

To reduce exhaust pollution at Logan, Massport operates eight electric vehicles, six compressed natural gas (CNG) buses and 25 bio-diesel buses.

Airside

Facility improvements can only go so far to maximize airport efficiency. On the airside, Massport is evaluating improvements that include a proposed new uni-directional runway that would reduce delays by nearly one-third and have major environmental benefits.

Redirecting the bulk of small commuter traffic to a designated uni-directional runway that only allows operations over the harbor could greatly reduce the amount of noise in most of the surrounding communities.

By reducing delays, the new runway would also eliminate much of the pollution caused by idling aircraft. The proposed addition of a center-field taxiway and other taxiway improvements would further reduce delays, by some 10,000 to 19,000 hours a year.

Limited peak period pricing and the installation of the latest navigational aids are other airside improvements under consideration. All proposed options are subject to extensive environmental review.

Getting to the Airport

For the vacationing traveler or busy executive, the most difficult leg of the journey shouldn't be from the driveway to the airport. A vast transportation network connects New England to Logan, including hassle-free Logan Express buses, water taxis and ferries, and MBTA subways. In fact, Logan is recognized as a national leader in the percentage of passengers who use high occupancy vehicles to get to and from the airport. Nearly one out of three passengers who use Logan leave their cars at home, and Massport is aggressively developing new ways to increase the use of high occupancy transportation—by land, sea and rail.

Logan Hospitality

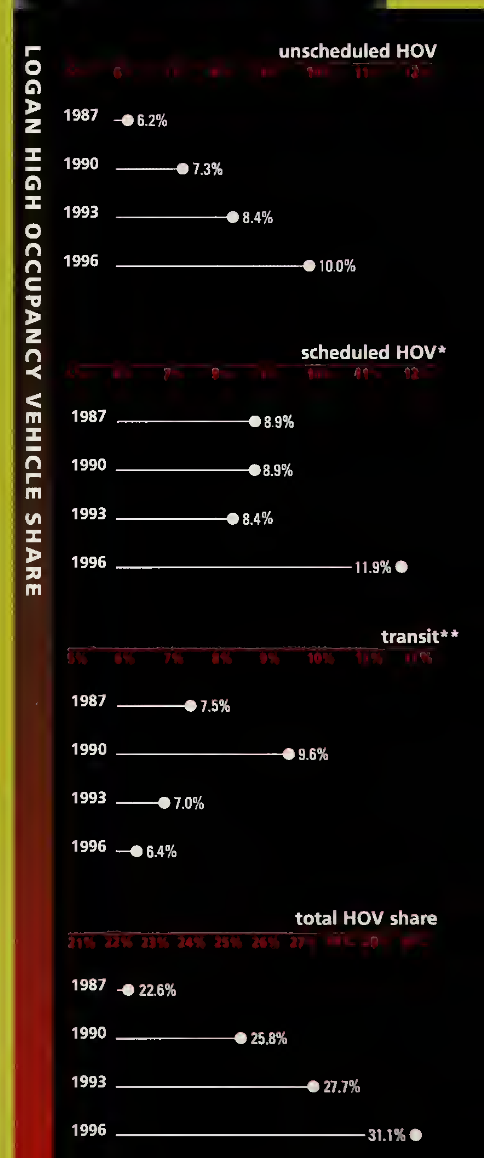
At Massport, the customer comes first. Visitors to Logan can choose between catch-on-the-fly fast food or leisurely fine-dining in one of the many full-service Boston restaurants that serve the airport. For those who want to window-shop or do some last-minute holiday shopping, Massport offers a wide selection of gift shops to choose from. Logan's award-winning "Kidports," in Terminals A and C, provide a safe and convenient way for children to burn off excess energy before boarding their flight. Massport's Airport Ambassador Program provides customer service training to all airport employees, and rewards those who go out of their way to help. And Massport's airport-wide interpreter service offers assistance to the growing number of international travelers visiting Boston. At Massport, good customer service is the constant that unites the diversity of services offered at Logan.

L.G. Hanscom Field and Regional Airports

As an airport that serves all of New England, Logan is closely linked with a network of regional airports. Massport owns and operates Hanscom Field, the region's busiest general aviation airport. Massport is working closely with the communities that neighbor Hanscom to assemble options for developing some of the vacant land that borders the airport to enhance its value for both local residents and the region.

Massport has also been actively working with Worcester Airport to make it an attractive second option for air travelers from Central Massachusetts. In 1997, Massport entered into a three-year, $750,000 agreement with Worcester to provide marketing and technical assistance to improve operations and market share at the airport.

Under Massport's leadership, Logan and its companion New England airports are reaching out to businesses and travel agencies to market New England as a single aviation system. Massport's efforts are paying off. During the last two years Massport has been involved in this regional partnership, more New England-bound flights went directly to regional airports. Fueled by federal capital improvements to lengthen runways and build new terminals, airports like New Hampshire's Manchester Airport and Rhode Island's T.F. Green Airport have actually grown faster than Logan.



*includes Logan Express and privately operated HOV services

**includes MBTA Blue line and all water shuttle services

Port of Boston

Dredging barges in the harbor are doing more than raking away centuries of silt and muck. They are turning back the hands of time. More than 300 years ago, Boston Harbor made Massachusetts a leading center of world trade. Today, Massport is hard at work building a Port of Boston poised to reclaim its former prominence.

Located a full day closer to the major European ports than other U.S. ports in the Northeast, Boston enjoys a natural advantage over its East Coast competitors. But competition among seaports for the growing share of oceangoing shipping is — quite literally — fluid. Shippers don't pick just any port in a storm. They pick a port based on the bottom line. The most important consideration is easy access — to deep water berths and channels, to nearby rails, to efficient highways. Massport is making the connections to link the Port of Boston to all three.

New Roads

Highway and airport connections already completed allow port industries to dramatically increase efficiency and market shares.

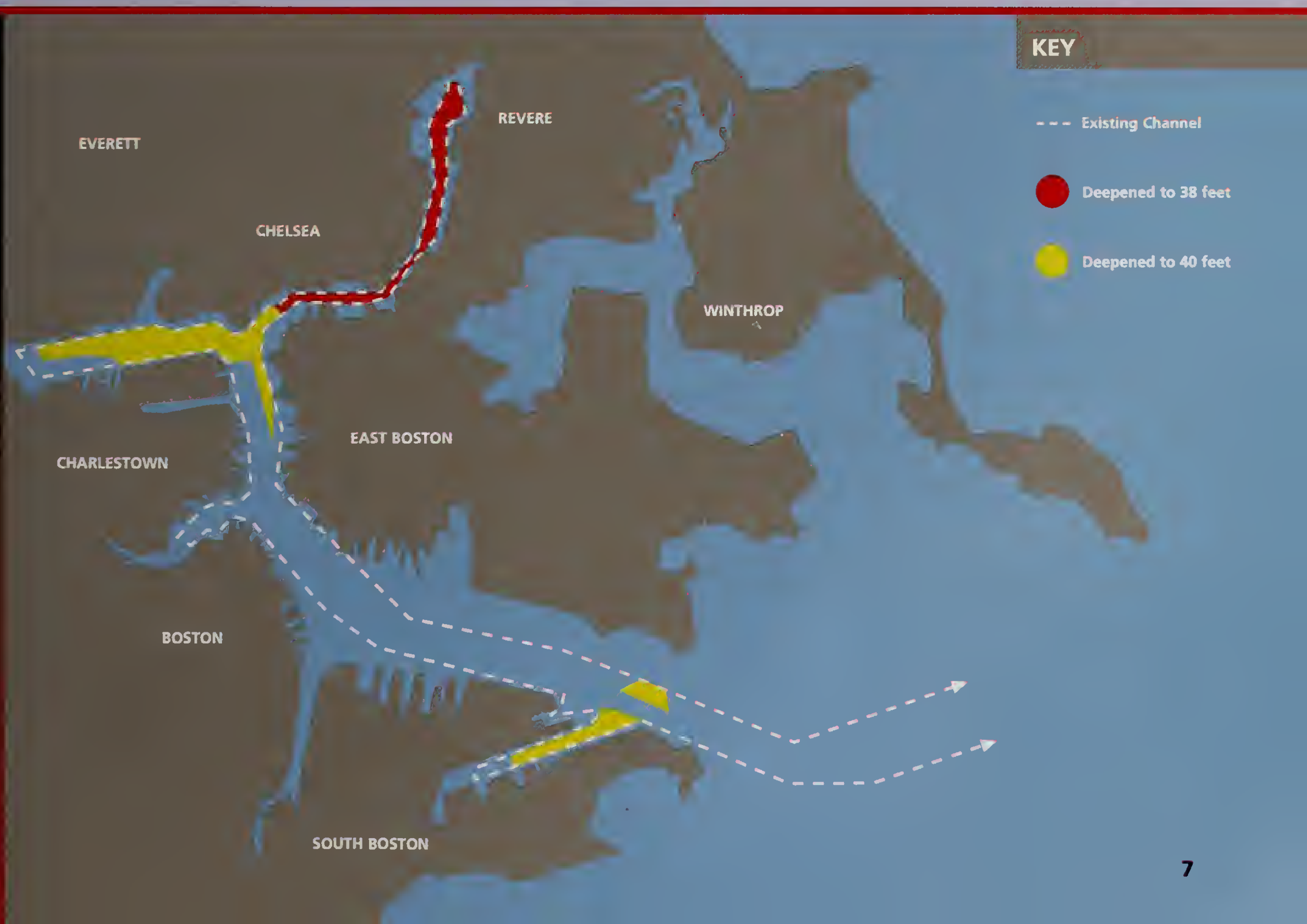
Truck Routes

A proposed Boston Haul Road would give trucks a direct link with the regional highway network.

Doublestack

Another $85 million in state funding for doublestack rail will give the Port of Boston efficient and cost-effective rail links to the lucrative Midwestern and Canadian markets.

PROPOSED DREDGING DEPTHS



Dredging

The most important improvements have been to the harbor itself. Backed by $15 million from the state's new Seaport Bond Bill, and with a $5 million investment of its own, Massport this year launched its long-awaited Boston Harbor Navigation Improvement Project to give the Port of Boston a leg-up in the race for the growing international shipping market.

With the deepening of the berths at the Conley Terminal in South Boston, Phase One is now complete. Another $47 million in earmarked federal funds will enable Massport to deepen major channels and berths throughout the harbor to handle the new generation of deep-draft oceangoing cargo ships, improve navigational efficiency and safety, and reduce the cost of doing business in New England. When completed, the dredging project will move approximately three million cubic yards of sediment from the harbor floor, making Boston Harbor deeper than major competitors, such as New York and Baltimore.

Conley Terminal

Massport has invested $50 million to upgrade Conley Terminal, where all container operations will be consolidated in the newly expanded grounds. At Conley, four Panamax container cranes and 2,000 feet of berth allow the terminal to handle the largest post-Panamax vessels. More than 1,200 feet of the berth has been dredged to 47 feet, with the remaining portion dredged to 40 feet. Also added to Conley Terminal is a new, efficient 10 lane gate facility and a new administration building.

Moran Terminal

At Moran, a new computerized cargo system gate and queuing area has cut the time truckers must wait to pick up or deliver. Also at Moran, which will become a new auto processing and loading facility, Boston Autoport Inc. is building an international vehicle distribution hub. The facility will be able to off-load 400 cars an hour and process over 150,000 cars annually. This state-of-the-art facility will have 1,000 feet of berth, 60 acres of backland for processing and storage and 275,000 square-feet of indoor vehicle storage, with 50,000 square-feet of outdoor space. Little wonder that Volkswagen of America chose Boston as its single port of entry for the Northeast market, and Toyota gave the Boston Autoport its highest rating for a U.S. port — ever.

Public Access

Even as it works to build a world-class industrial port, Massport hasn't forgotten the important recreational value of Boston Harbor for residents and tourists alike. Plans to establish an East Boston Maritime District, expand public access to the waterfront through a Boston Harborpark, and build a new fresh seafood market on the Fish Pier — these are all part of Massport's effort to enhance public enjoyment of the harbor while keeping Boston a major international player in the competition for world trade.

CruisePort Boston

Landlubbers in droves are being lured to the lyrical lexicon of the sea at the Black Falcon Terminal — Massport's gangway to the luxury cruise industry. For arriving passengers, the Black Falcon's location in the heart of the city means easy connections to Logan International Airport.

Boston is fast becoming a favorite with port-of-call passengers who can disembark for a full-day of fun and still not miss the boat. The Black Falcon's close proximity to Boston results in enormous benefits for the local economy and tourist industry. Cruise passengers who visit Boston are within short hailing distance to a rich assortment of historic, cultural and entertainment day trips — whether shopping and dining in downtown Boston, or visiting historic Lexington, Concord and Salem.

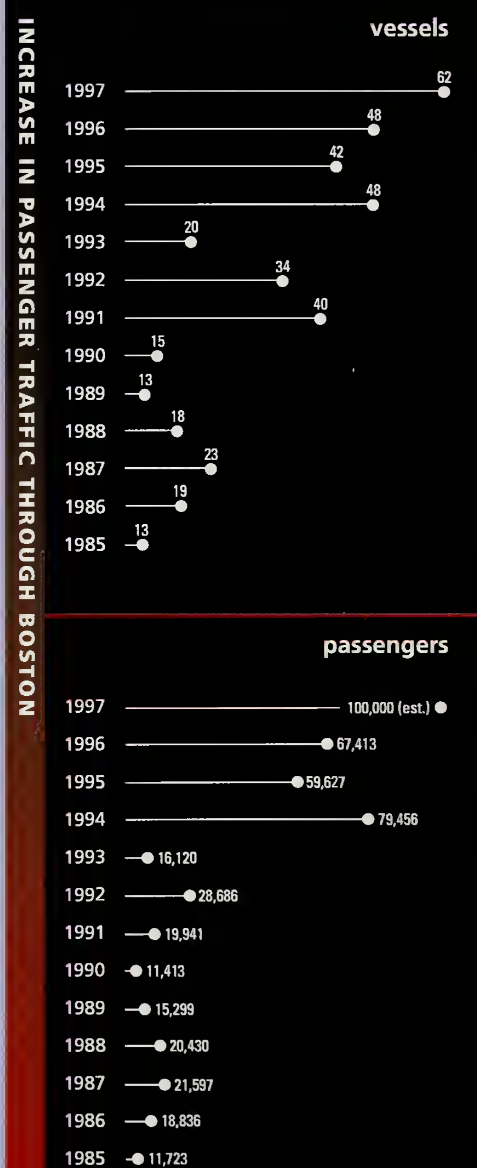
Black Falcon Cruise Terminal

At Massport, customer comfort comes first, and physical improvements to the Black Falcon Terminal have helped CruisePort Boston capitalize on the city's natural advantages with cruise passengers. Massport's addition of a new floating dock, shaded outdoor cafes, and more roomy 19,000 square-feet of check-in space — together with an aggressive marketing campaign — made the 1997 cruise season the best yet.

Maiden Voyage

The season included a new addition to Boston's fleet — the Royal Caribbean Line's, *Enchantment of the Seas*, which made three calls on Boston to inaugurate its New Atlantic Frontier itinerary to Canadian ports.

A record 62 ships visited the Black Falcon, featuring 26 weekly Boston to Bermuda cruises by the Majesty Cruise Line. The nearly 70,000 passengers who called on the Black Falcon Terminal in 1996 bore impressive testimony that CruisePort Boston is now one of the glittering jewels in Boston's waterfront crown.



Tobin Memorial Bridge

A double line stretching from Boston to the Golden Gate Bridge could be drawn with the amount of paint Massport will use over the next 10 years to maintain the two-and-a-quarter-mile long Tobin Memorial Bridge.

More than 23,000 gallons of green acrylic paint are being applied to the 47 year-old Tobin to protect it against the ravages of weather and time for the 36,000 motorists who use the bridge each day. Planned in consultation with environmental experts, and with the active collaboration of community residents in Chelsea and Charlestown, the $26 million restoration project employs state-of-the art techniques to ensure the safety of residents and the environment.

To help cover the costs of this massive restoration project, and to help maintain the Tobin as an environmentally and structurally safe link between Boston and the North Shore for years to come, Massport raised commuter tolls on the bridge this year from 50 cents to a dollar.

Even with the toll increase — the first in 44 years — the Tobin remains the nation's least expensive toll bridge connecting a major city to its suburbs. Motorists accustomed to paying $3 to cross the shorter Golden Gate Bridge, or $7 for a round-trip across the Verrazano-Narrows, will find the Tobin a bargain.

Environmental protection

Air and soil samples are regularly tested by permanent monitors positioned throughout the project, and by mobile monitors mounted on vehicles that regularly patrol the site. Sandblasting is strictly forbidden to prevent paint chips from scattering into the neighborhoods.

Special precautions

State-of-the-art containment areas have been erected around all work areas to keep dust and particles from escaping into the atmosphere. Old paint is removed and captured by workers using hand-held power tools equipped with special vacuum attachments.

Protective cover

The double coat of special aluminized epoxy mastic green paint applied to the bridge protects its 76,000 tons of steel against weathering and rust.

URBAN TOLL BRIDGE COMPARISON

Golden Gate Bridge*	1.7	$3.00
Delaware Memorial Bridge*	7	$2.00
Ben Franklin Bridge*	1.7	$2.00
Walt Whitman Bridge*	6.25	$2.00
Commodore Barry Bridge*	4	$2.00
Betsy Ross Bridge*	3.5	$2.00
Triborough Bridge	2.9	$3.50
Bronx-Whitestone Bridge	1.6	$3.50
Throgs Neck Bridge	2.4	$3.50
Henry Hudson Bridge	0.5	$1.75
Verrazano Narrows Bridge*	2.3	$7.00
Cross Bay Veterans Memorial Bridge	0.75	$1.75
Thousand Island Bridge	2	$2.00
Bayonne Bridge*	1.56	$4.00
George Washington Bridge*	2.45	$4.00
Goethals Bridge*	1.82	$4.00
Outerbridge Crossing*	1.92	$4.00
Tobin Memorial Bridge*	2.25	$1.00

One way toll collection

International

Marketing

For Massport, international trade begins at home. From fibers to fiber optics, New England makes the high-quality, high-tech goods the world wants most. But for many New England companies, the biggest barriers to trade are self-imposed: fear, uncertainty, inexperience.

NEW INTERNATIONAL AIR CARRIER ACTIVITY

international destination	daily round-trip frequency
Bermuda*	1
Vancouver*	1
Toronto*	4
Seoul *(via JFK)**	3/wk
Lisbon *(via Ponta Delgada)*	2/wk

**New in FY 97*

Massport tears down those barriers to ensure New England delivers. By consolidating its trade, tourism and airline route development operations into a single International Marketing Department, Massport is better equipped than ever before to help New England expand its horizons globally.

Market Information

The strength of New England has always been its diversity. With on-the-ground trade representatives located in seven diverse markets overseas, Massport's new International Marketing Department builds the bridges New England's businesses need to connect with foreign markets. Among Massport's menu of trade services is "Access," a computerized information system that can put valuable trade data at the fingertips of local business.

Trade Assistance

Through the inter-agency Massachusetts Export Center, Massport is participating in a coordinated state effort to give the region's industries one-stop trade assistance. The Export Center's counseling services, as well as regular Partners for Trade seminars, offer new exporters everything they need to know.

Tourism

Logan International Airport and the Black Falcon Cruise Terminals are major New England gateways for tourist dollars that enter the region. With a $1.6 billion economic impact, tourism is the second largest industry in Massachusetts and a top Massport priority. Massport works with the New England travel trade and other state tourism agencies to increase the number of international travelers who visit Massachusetts and New England. Overseas, Massport has a network of in-country representatives who work closely with local tourism industry agencies to promote our facilities and the New England region as a four-season destination.

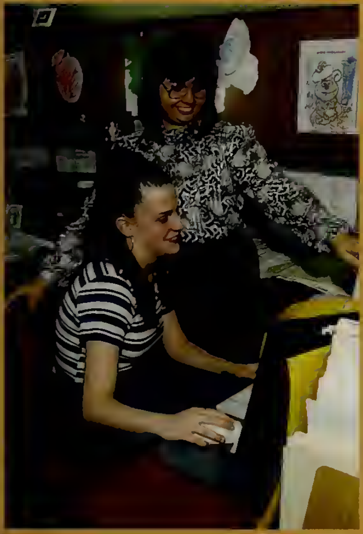
Airline Development

Massport's aggressive marketing to lure new international air carriers to Logan, and to increase frequency of service, is also paying dividends. Massport's airline route development operations welcomed back TAP Air Portugal service last year. Marketing efforts resulted in Korean Air becoming the first Asian carrier to serve Boston. Airline marketing initiatives also produced increased summer frequencies to Frankfurt on Lufthansa and Aer Lingus service to Dublin. Massport's air route development staff celebrated the initiation of service to Reykjavik on Icelandair, and in January 1998, VARIG is scheduled to offer the first ever first direct service by a South American carrier from Boston to Brazil.

Community Involvement

Whether it's sponsoring a local soccer or little league team, contributing recreational facilities like Piers Park and community boating, supporting "Main Street" economic development programs, snow-plowing neighborhood roads, offering life-saving CPR instruction to youth coaches and area residents, or donating equipment and training to local fire departments, Massport proves its reputation as a concerned neighbor is well-deserved.

- New East Boston Foundation
- Airport green buffer zone
- Continued soundproofing
- High Occupancy Vehicle commitment
- Local park improvements



Massport actively involves the community in its projects, as was exhibited by the major mitigation agreement Massport reached this year with Logan's host communities. Together with local citizen groups, Massport is pursuing ways to reduce noise, ease congestion and improve environmental quality at Logan. With strict nighttime noise rules, aggressive noise monitoring, and on-going soundproofing in adjacent neighborhoods, the overall population exposed to noise around Logan has dropped. In 1996, an additional 572 residences were soundproofed. And now, Logan ranks in the top five among the nation's airports in the use of quiet jets, with "Stage III" aircraft accounting for 80 percent of all flights at Logan.

Massport has already spent $60 million to soundproof nearly 3,800 dwelling units and 34 schools, and has committed another $27 million to the effort through the year 1999 — making it the most comprehensive soundproofing program in the country. And under the mitigation agreement, Massport will soundproof every eligible home over the next two years.

In addition, Massport is setting aside $15 million to provide a green buffer zone surrounding the airport, and is establishing a new local community foundation with up to $9.6 million in payment in lieu of taxes funding over the next eight years to develop its own plans for mitigating the effects of Logan modernization.
Under the agreement, Massport will aggressively move forward with ongoing efforts to increase High Occupancy Vehicle share from 25 percent to 35 percent when annual passenger traffic reaches 37.5 million. Two local parks will benefit from the agreement. Massport will give Winthrop $1.15 million, over three years, for improvements to Engleside Park, and Massport will perform design work for further state-funded expansion of Piers Park in East Boston, in addition to operating and maintaining the park.

Even as Massport pursues business opportunities globally, it is still taking care of business in its own backyard. Its "Logan and Beyond" forums allow local businesses to establish long-term, profitable relationships with Massport. Massport's "Local Advantage" guide opens the door for East Boston vendors to the more than 160 businesses located at Logan. Its "Taste of Eastie" restaurant guide gives Logan visitors, and more than 17,000 hungry airport employees, good tips on the best places to eat in East Boston.

Student jobs

Massport's Community Summer Jobs Program pays high school students to work with social service agencies in their own communities. A summer internship program gives college students the chance to experience the varied operations of Massport, while earning money for school. Another 3,000 students participate each year in Massport's Aviation Education Career Expo, held to highlight the careers available to students in aviation-related industries. A successful CityBuild program supported by Massport also introduces students to careers in building and design management.

Massport Board Members

The Massport Board consists of seven members appointed by the Governor of Massachusetts to staggered terms of seven years each. Members serve without compensation.

Mark E. Robinson, Chair,

is an attorney at the Boston law firm of Bingham, Dana and Gould.

Term expires 2002.

James M Coull, Vice-Chair,

is chair of the board of J.M. Coull, Inc./JMC Environmental Systems of Concord, a full-service construction firm.

Term expires 2001.

John A Curry *

is president emeritus of Northeastern University in Boston.

Term expires 1998.

James H Carangelo

is president of Business Planning Associates of Lynnfield, an employee benefit and estate planning firm.

Term expires 1999.

George W Cashman

is president and chief executive officer of the International Brotherhood of Teamsters, Local #25 in Charlestown.

Term expires 2000.

Lucy A. Flynn

is senior vice president, marketing and communications for Wang Laboratories in Billerica.

Term expires 2003.

Robert H Marsh **

is government affairs manager, Northeastern Region American, Automobile Manufacturers Association in Boston.

Term expires 2004.

* *John A. Curry replaces Paul W. Cronin.*

***Robert H. Marsh replaces Frederick P. Salvucci whose term expired in June, 1997.*

Massport was saddened by the loss of Paul W. Cronin, who died last spring following a long illness. A life-long public servant, with more than 30 years of distinguished service as local selectman, State Representative, and U.S. Congressman, Paul Cronin served the Authority for six years. All at Massport will miss him.

Report of Independent Accountants

To the Members of the Massachusetts Port Authority:

We have audited the accompanying balance sheet of the Massachusetts Port Authority (a public instrumentality of the Commonwealth of Massachusetts) as of June 30, 1997, and the related statements of income, changes in fund equity and cash flows for the year then ended. We previously audited and reported upon the financial statements of the Authority for the year ended June 30, 1996 for which condensed statements are presented for comparison purposes only. These financial statements are the responsibility of the Massachusetts Port Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Massachusetts Port Authority as of June 30, 1997, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

Boston, Massachusetts

September 8, 1997

Balance Sheets

June 30, 1997 with comparative totals for June 30, 1996

ASSETS *(in thousands)*	Port Authority Operations	PFC Program	1997 Combined	1996 Combined
Cash and cash equivalents (Notes A and C)	$ 9,694	$ —	$ 9,694	$ 11,891
Investments (Notes A and C)	18,596	—	18,596	13,767
Accounts receivable, net of allowance for doubtful accounts of $11,165 and $10,241 in 1997 and 1996, respectively	21,418	2,149	23,567	21,937
Accounts receivable - grants (Note A)	210	—	210	6,287
Prepayments and other assets, net	21,626	—	21,626	23,289
Assets whose use is limited, including cash and cash equivalents of $50,727 and $87,048 in 1997 and 1996, respectively (Notes A, C, E and H)	262,544	67,983	330,527	330,149
Investment in facilities (Notes A, D and I):				
Completed facilities	1,494,658	9,366	1,504,024	1,434,031
Less accumulated depreciation	(674,556)	(375)	(674,931)	(625,810)
	820,102	8,991	829,093	808,221
Construction in progress	144,107	41,862	185,969	153,935
Net investment in facilities	964,209	50,853	1,015,062	962,156
Total Assets	$1,298,297	$120,985	$1,419,282	$1,369,476
LIABILITIES AND FUND EQUITY				
Liabilities				
Accounts payable and accrued expenses (Note H)	73,289	685	73,974	63,381
Accrued compensated absences (Note A)	10,612	—	10,612	10,977
Accrued pension cost (Note G)	640	—	640	1,244
Accrued interest payable	14,818	—	14,818	15,064
Funded debt (Notes F and M)	559,737	—	559,737	572,207
Deferred income (Note A)	3,198	—	3,198	3,869
Total Liabilities	662,294	685	662,979	666,742
Contingent liabilities and commitments (Notes I, K & L)				
Fund Equity (Notes A and B)				
Accumulated fund equity	508,687	120,300	628,987	579,214
Contributed capital, grants-in-aid of construction	127,316	—	127,316	123,520
Total Fund Equity	636,003	120,300	756,303	702,734
Total Liabilities and Fund Equity	$1,298,297	$120,985	$1,419,282	$1,369,476

The accompanying notes are an integral part of these financial statements.

Statements of Income

For the year ended June 30, 1997 with comparative totals for the year ended June 30, 1996

(in thousands)	Port Authority Operations	PFC Program	1997 Combined	1996 Combined
Operating Revenues (Note B):				
Tolls, fees and sales of service	$142,460	$ —	$142,460	$141,201
Rentals (Note L)	61,974	—	61,974	61,432
Concessions (Note L)	38,031	—	38,031	35,235
Other	9,444	—	9,444	9,285
Total Operating Revenues	251,909	—	251,909	247,153
Operating Expenses (Note B):				
Operations and maintenance	108,355	—	108,355	108,428
Administration	50,068	—	50,068	50,969
Insurance (Note A)	2,646	—	2,646	2,756
Pension costs (Note G)	2,070	—	2,070	2,610
Payments in lieu of taxes (Note J)	10,526	—	10,526	10,236
Provision for uncollectible accounts	577	—	577	(514)
Total Operating Expenses	174,242	—	174,242	174,485
Depreciation and amortization, including $7,456 and $6,945 in 1997 and 1996, respectively, on assets acquired with contributed capital, grants-in-aid of construction (Note A and D)	51,804	375	52,179	48,534
Income/(loss) from Operations	25,863	(375)	25,488	24,134
Gain on sale of equipment	384	—	384	5
PFC Revenue (Notes A and E)	—	32,266	32,266	33,159
Financial income and expense:				
Income on investments (Note A)	11,425	4,189	15,614	16,033
Interest expense (Notes A and I)	(31,435)	—	(31,435)	(31,347)
Net Income	$6,237	$36,080	$42,317	$41,984

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Fund Equity

For the years ended June 30, 1997 and 1996

(in thousands)	Accumulated Fund Equity	PFC Program	Contributed Capital, Grants-in-aid of Construction	Total Fund Equity
Balance, June 30, 1995	$482,468	$ 47,817	$119,301	$649,586
Net income	5,581	36,403	—	41,984
Contributed capital, grants-in-aid of construction (Note A)	—	—	11,164	11,164
Transfer of depreciation to contributed capital	6,945	—	(6,945)	—
Balance, June 30, 1996	494,994	84,220	123,520	702,734
Net income	6,237	36,080	—	42,317
Contributed capital, grants-in-aid of construction (Note A)	—	—	11,252	11,252
Transfer of depreciation to contributed capital	7,456	—	(7,456)	—
Balance, June 30, 1997	$508,687	$120,300	$127,316	$756,303

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

For the years ended June 30, 1997 and 1996

(in thousands)	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 248,378	$ 247,905
Cash payments:		
To vendors for goods and services	(96,808)	(97,038)
To employees for services	(67,559)	(65,503)
Payments in lieu of taxes	(10,526)	(10,236)
Net cash provided by operating activities	73,485	75,128
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Grants-in-aid of construction	17,329	16,599
Acquisition and construction of capital assets	(95,379)	(127,172)
Proceeds from sale of bonds	—	51,000
Proceeds from sale of equipment	445	15
Principal paid on funded debt	(12,855)	(9,270)
Interest paid on funded debt	(35,784)	(34,978)
Proceeds from passenger facility charges	32,344	33,194
Net cash used for capital and related financing activities	(93,900)	(70,612)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(2,510,980)	(1,843,145)
Proceeds from sale and maturities of investments	2,475,523	1,844,744
Interest earned on investments	17,354	16,565
Net cash (used in)/provided by investing activities	(18,103)	18,164
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(38,518)	22,680
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	98,939	76,259
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 60,421	$ 98,939

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows, continued

For the years ended June 30, 1997 and 1996

(in thousands)	1997	1996
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income	$ 42,317	$ 41,984
Less:		
income on investments	(15,614)	(16,033)
proceeds from passenger facility charge	(32,266)	(33,159)
Add:		
interest expense	31,435	31,347
gain on sale of equipment	(384)	(5)
	$ 25,488	$ 24,134
ADJUSTMENTS TO RECONCILE INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation and amortization	52,179	48,534
Provision for uncollectible accounts	577	(514)
Change in assets and liabilities		
Increase in accounts receivable	(2,285)	(1,291)
Increase in prepayments and other assets	(4,662)	(879)
Increase in accounts payable and accrued expenses	3,828	3,003
(Decrease)/Increase in accrued compensated absences	(365)	1,180
Decrease in accrued pension cost	(604)	(569)
(Decrease)/Increase in deferred income	(671)	1,530
Total adjustments	47,997	50,994
Net cash provided by operating activities	$73,485	$75,128

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

The Massachusetts Port Authority (the Authority) is a public instrumentality created by an act of the Legislature (the Enabling Act) of the Commonwealth of Massachusetts (the Commonwealth), effective June 21, 1956. The Authority controls, operates and manages Boston-Logan International Airport (Logan Airport), Hanscom Field, Maurice J. Tobin Memorial Bridge (Tobin Bridge) and other facilities in the Port of Boston. The Authority has no stockholders or equity holders. The provisions of the Enabling Act and the 1978 Trust Agreement (the Trust Agreement), as amended, with the Authority's bondholders govern the disposition of cash revenues to the various funds established under the Trust Agreement and restrict the use of such revenues credited to the various funds.

Notes to Financial Statements, continued

A. Summary of Significant Accounting Policies:

These financial statements have been prepared in conformity with generally accepted governmental accounting principles. The Authority has elected not to follow Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989 as allowed per the Governmental Accounting Standards Board.

(1) Assets Whose Use Is Limited

The balance sheet caption, "assets whose use is limited," represents restricted or trusteed assets under the Trust Agreement that are earmarked to fund certain activities of the Authority such as construction of new facilities and debt service. Assets to fund deferred compensation are included under this caption (See Note C).

(2) Cash and Cash Equivalents

For purposes of the statements of cash flows, the Authority considers all highly liquid investments (including assets whose use is limited) with an original maturity of 30 days or less when purchased to be cash equivalents.

(3) Investments

Investments in U.S. Government securities are recorded at amortized cost plus accrued interest, which approximates market value. Investments in repurchase agreements are recorded at cost plus accrued interest, which also approximates market value.

(4) Self-Insurance

The Authority, as mandated by the Trust Agreement, maintains a self-insurance account within the operating fund. The Authority is self-insured for certain major catastrophic risks and worker's compensation claims, but maintains insurance coverage for claims in excess of established limits. Investments used to fund self-insurance claims are included within "assets whose use is limited" in the accompanying balance sheets. (See Notes C and K).

(5) Investment in Facilities

Facilities are carried at historical cost and include the expenditure of federal grants-in-aid of construction and the cost of significant renewals and betterments. Federal grants-in-aid of construction are recorded as contributed capital as earned and amortized on the straight-line method over the service lives of the related assets. Expenditures for repairs and maintenance are charged to expense as incurred.

(6) Depreciation

Depreciation is provided on the straight-line method based on estimated useful service lives of the related assets beginning in the fiscal year of acquisition or upon completion of construction. Depreciation is computed on facilities which are recorded in the accounts of the Authority, including those financed by grants-in-aid of construction.

(7) Interest Capitalization

The Authority capitalizes certain interest associated with the cost of restricted tax-exempt borrowings, less any interest earned on temporary investment of the proceeds of those borrowings during the period of construction. Interest expense of $4,102,000 and $2,999,000 reduced by interest income of $2,169,000 and $882,000 for the years ended June 30, 1997 and 1996, respectively, has been capitalized as a part of the cost of construction projects.

(8) Accounting for Compensated Absences

The Authority accrues for vacation and sick pay when it is earned. The liability for vested vacation and sick pay is reflected in the accompanying balance sheets under the caption "accrued compensated absences."

(9) Deferred Income

Deferred income consists primarily of amounts received from the Commonwealth for the temporary takings of certain properties at Logan Airport.

(10) Passenger Facility Charges

Revenues derived from the collection of passenger facility charges (PFCs) are recognized and reported as non-operating revenue by the Authority.

B. Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the Trust Agreement:

The provisions of the Enabling Act and the Trust Agreement with State Street Bank and Trust Company, as trustee for the benefit of the Authority's bondholders, prescribe certain accounting practices to be followed in maintaining the accounts and records of the Authority.

Under the Trust Agreement, monthly cash revenues of the Authority, after providing for required debt service costs on the Revenue Refunding Bonds, Series 1978, from pledged revenues, are transferred to the Operating Fund. After providing for operating expenses, including pension expense and transfers to the self-insurance account, cash revenues are then transferred to the Interest and Sinking Fund (which are applied to debt service on any outstanding bonds other than the Revenue Refunding Bonds, Series 1978), the Maintenance Reserve Fund, the Payment In Lieu of Taxes Fund and the Improvement and Extension Fund. Cash and investments held in the Improvement and Extension Fund, to the extent designated by the Authority, are transferred to the Capital Budget Account.

Under the provisions of the Trust Agreement, all revenues derived from operation of the Tobin Bridge, all aircraft landing fees and motor vehicle parking fees, derived from the operations of the airport properties, and all income from investments held in all funds with the exception of the Construction Funds, Port Properties Fund and self-insurance account are pledged for the debt service requirements of the Revenue Refunding Bonds, Series 1978.

To the extent that pledged revenues exceed debt service requirements, they are available to meet operating expenses and for transfer to other funds. To the extent unexpended, these amounts continue to be available for the debt service requirements in any year.

Notes to Financial Statements, continued

B. Revenues and Operating Expenses as Determined by Accounting Practices prescribed by the Trust Agreement, *continued:*

Presented below are the 1997 and summary 1996 revenues and operating expenses as determined in accordance with the Trust Agreement and a reconciliation to net income as presented in the accompanying Statements of Income under generally accepted governmental accounting principles (GAGAP). (For Trust accounting purposes, the provision for uncollectible accounts is netted within the accounts listed under the revenues caption.)

(in thousands)	Bridge	Airport Properties	Port Properties Maritime	Port Properties Development*	Income on Investments	1997 Total	1996 Total
Revenues, Net:							
1978 Pledged Revenues	$6,372	$103,383	—	—	$10,212	$119,967	$119,016
Non-Pledged Revenues	—	115,508	20,574	5,407	—	141,489	140,300
Passenger Facility Charge (Note E)	—	32,266	—	—	4,189	36,455	36,403
Total	6,372	251,157	20,574	5,407	14,401	297,911	295,719
Operating Expenses:							
Operations and Maintenance	4,003	83,053	18,313	2,960	—	108,329	108,415
Administration	2,485	37,536	7,051	2,996	—	50,068	50,969
Insurance	335	2,078	620	232	—	3,265	3,256
Pension (Note G)	159	2,090	329	96	—	2,674	3,179
Total	6,982	124,757	26,313	6,284	—	164,336	165,819
Excess (Deficit) of Revenues Over Operating Expenses Under Trust Agreement	(610)	126,400	(5,739)	(877)	14,401	133,575	129,900
Add: Self Insurance Cost (1)	36	492	48	43	—	619	500
Pension Adjustment (1)	25	473	80	26	—	604	569
Self Insurance Income on Investments (3)	—	—	—	—	1,213	1,213	1,140
Less: Payments In Lieu of Taxes (4)	(437)	(8,459)	(1,109)	(521)	—	(10,526)	(10,236)
Gain/(loss) on Sale of Equipment (2)	—	(4)	388	—	—	384	5
Other (4)	—	62	—	—	—	62	(13)
Interest Expense (4)	(3,930)	(20,673)	(5,594)	(1,238)	—	(31,435)	(31,347)
Depreciation and Amortization (4)	(3,257)	(36,411)	(7,893)	(4,618)	—	(52,179)	(48,534)
Net Income (Loss)	($8,173)	$61,880	($19,819)	($7,185)	$15,614	$42,317	$41,984

*Development includes activities related to the Authority's alternative use program, principally the Commonwealth, Fish and Hoosac Piers.

(1) Expensed under Trust Agreement, not an expense under GAGAP.

(2) Equipment is depreciated under GAGAP but not under Trust Agreement.

(3) Not revenue under Trust Agreement, revenue under GAGAP.

(4) Not operating income/(expense) under Trust Agreement, income/(expense) under GAGAP.

C. Cash, Cash Equivalents and Investments:

The following summarizes the Authority's cash, cash equivalents and investments at June 30, 1997 by the various funds and accounts established under the Trust Agreement with the Authority's bondholders. Summary 1996 information is also presented. (Assets designated for credit enhancement and deferred compensation are also included.)

(in thousands) Use defined for specific purposes:	Cash and cash Equivalents	Investments	Assets whose use is limited Cash, Cash Eqivalents & Investments	1997 Total	1996 Total
1978 Debt Service Fund	$ —	$ —	$ 42,286	$ 42,286	$ 40,781
Operating Fund	3,839	—	—	3,839	5,466
Self-insurance Account	—	—	22,219	22,219	20,301
Maintenance Reserve	—	—	32,250	32,250	42,347
Payments In Lieu of Taxes	—	—	7,179	7,179	9,220
Capital Budget	—	—	48,617	48,617	13,448
Improvement and Extension Fund	5,855	18,596	—	24,451	20,192
1990 Interest and Sinking Fund	—	—	12,578	12,578	12,558
1992 Interest and Sinking Fund	—	—	11,075	11,075	10,938
1992 Construction Fund	—	—	—	—	5,094
1993 Interest and Sinking Fund	—	—	13,991	13,991	13,975
1993 Project Fund	—	—	23	23	23
1995 Interest and Sinking Fund	—	—	10,557	10,557	9,039
1995 Project Fund	—	—	22	22	80
1996 Project Account	—	—	25,724	25,724	47,217
Credit Enhancement Account (Note I)	—	—	9,541	9,541	9,846
PFC Accounts	—	—	67,983	67,983	74,440
Subtotal	9,694	18,596	304,045	332,335	334,965
Deferred Compensation (Note H)	—	—	26,482	26,482	20,842
Total	$9,694	$18,596	$330,527	$358,817	$355,807

The carrying amount of the Authority's cash deposits was $4,334,000 and $3,342,000 at June 30, 1997 and 1996, respectively. The bank balance was $8,100,000 and $5,108,000 at June 30, 1997 and 1996, respectively. The nature of the reconciling items between the book and bank balance consisted primarily of outstanding checks which had not cleared the bank at year-end. The bank balance was fully collateralized as of June 30, 1997 and 1996.

Notes to Financial Statements, continued

C. Cash, Cash Equivalents and Investments, *continued:*

The following summarizes the Authority's cash and cash equivalents and investments by type held at June 30, 1997, excluding cash and investments held for purposes of deferred compensation ($26,482,000 and $20,842,000 at June 30, 1997 and 1996 respectively, see note H). Summary 1996 information is also presented.

(in thousands)	1997 Carrying Amount	1997 Market Value
Certificates of Deposit	$ 100	$ 100
Repurchase Agreements	13,192	13,192
U.S. Government Securities:		
Treasury Notes	16,222	16,252
Treasury Bills	9,104	9,110
Federal Farm Credit (FFC)	45,278	45,287
Federal Farmer Mortgage (FRM)	5,439	5,439
Federal National Mortgage Association (FNMA)	119,139	119,178
Federal Home Loan Bank (FHLB)	46,259	46,276
Federal Home Loan Mortgage Corp. (FHLMC)	72,835	72,881
Total U.S. Government & Agency Securities	314,276	314,423
Fidelity U.S. Treasury Income Portfolio Mutual Fund	433	433
Total investments	328,001	328,148
Cash deposits	4,334	4,334
Total at June 30, 1997	$332,335	$332,482
Total at June 30, 1996	$334,965	$335,017

The Authority is authorized by the Trust Agreement to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, in bonds or notes of public agencies or municipalities, in bank time deposits and in repurchase agreements. All investments are held on behalf of the Authority by the Authority's trustee and custodian.

The Certificates of Deposit are fully insured by the Federal Deposit Insurance Corporation. Repurchase agreements are collaterized by obligations of the U.S. Government or agencies of the U.S. Government. The Trust Agreement requires that securities underlying repurchase agreements at the time of purchase must have a market value at least equal to the cost of the agreement plus accrued interest. The Fidelity U.S. Treasury Income Portfolio Mutual Fund is held by the Authority in accordance with the Credit Enhancement Agreement (see footnote I) and is not guaranteed by the U.S. Government.

Notes to Financial Statements, continued

D. Investment in Facilities and Depreciation:

Net investment in facilities at June 30, 1997 and 1996 is comprised of:

(in thousands)	1997	1996
Facilities completed by operation:		
Airport	$1,022,652	$971,486
Bridge	116,235	111,647
Port	365,137	350,898
Investment in facilities	$1,504,024	$1,434,031
Facilities completed by type:		
Land and land improvements	$113,033	$112,721
Bridge and bridge improvements	110,822	106,652
Buildings	876,014	829,047
Runways and other paving	325,154	308,136
Machinery and equipment	79,001	77,475
	1,504,024	1,434,031
Accumulated depreciation and amortization	(674,931)	(625,810)
	829,093	808,221
Construction in progress	185,969	153,935
Net investment in facilities	$1,015,062	$962,156

Estimated useful lives used in the calculation of depreciation are as follows:

Bridge	100 years
Bridge improvements	10 and 25 years
Airport facilities - buildings, runways and other paving	10 and 25 years
Port facilities - buildings and piers	25 years
Machinery and equipment	5 and 10 years

E. Passenger Facility Charges:

In August of 1993, the Authority received approval from the Federal Aviation Administration (FAA) to impose a $3.00 passenger facility charge (PFC) at Logan Airport, effective November 1, 1993. PFCs collected by the Authority are an amount in lieu of Federal grants and can be used for capital projects determined by the FAA to be eligible in accordance with the Aviation Safety and Capacity Expansion Act of 1990. The Authority was authorized to collect net PFCs up to $598.8 million for the period of November 1, 1993 through October 1, 2011. The Authority also received approval from the FAA to use or expend $12 million of PFCs for preliminary design. The Authority must receive subsequent authorization from the FAA to use or expend the remainder of such PFCs.

In January 1997, the Authority received approval from the Federal Aviation Administration (FAA) to increase its collections up to $631.8 million, with a projected expiration date of September 1, 2012. The Authority also received approval from the FAA to use or expend a total of $493.2 million for preliminary design projects as well as for the final design, construction and financing costs associated with the eligible portions of residential soundproofing, Terminal E Modernization, circulating roadways and the elevated walkways.

On October 30, 1996, the FAA approved the Authority's Request for an Extension of Time to Submit an Application to Use Passenger Facility Charge Revenue for the International Gateway Project granting Massport until October 1, 1997 to submit the use application for that project.

The amount of PFC revenue invested in Port Authority facilities, operations and reserves that are restricted for future PFC project payments is as follows:

(in thousands)	1997
Total assets, PFCs	$120,985
PFC funds expended on approved projects	(51,228)
PFCs restricted but not yet expended	$69,757

Notes to Financial Statements, continued

F. Funded Debt:

The following is a summary of the Authority's funded debt activity for the years ended June 30, 1997 and 1996:

(in thousands)	1997	1996
Funded debt, beginning of year	$582,040	$540,310
New debt issued	—	51,000
Principal paid on funded debt	(12,855)	(9,270)
Funded debt, end of year	$569,185	$582,040

Funded debt at June 30, 1997 and 1996 is comprised of the following:

(in thousands)	Weighted Average Interest Rate at June 30, 1997	1997	1996
Revenue Refunding Bonds			
Series 1978	6.9%	$ 6,305	$12,210
Series 1993 - A & B	5.2%	51,885	54,475
Series 1995 - A & B	4.1%	70,080	71,715
Revenue Bonds			
Series 1990 - A	7.1%	16,975	18,300
Series 1992 - A & B	5.5%	20,905	22,305
Term Revenue Bonds	6.7%	352,035	352,035
Commercial Paper	3.8%	51,000	51,000
Total Funded Debt		569,185	582,040
Less: Unamortized loss on refunding		(1,417)	(1,485)
Less: Original issue discount		(8,031)	(8,348)
Total		$559,737	$572,207

Scheduled principal payments on funded debt are due annually July 1 as follows:

Fiscal Year *(in thousands)*	Amount
1998	$ 64,620
1999	14,470
2000	15,090
2001	16,055
2002	17,110
Thereafter	441,840
Total	$569,185

F. Funded Debt, *continued:*

In prior years, the Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust with the Trustee for such bonds to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At June 30, 1997, the following bonds outstanding are considered defeased:

(in thousands)	
1964 Series	$ 21,425
1969 Series	39,685
1971 Series	54,950
1973 Series	74,980
1982 Series	49,020
Total Defeased Bonds	$240,060

In March 1997, the Board authorized the extension of the 1996 commercial paper program for another year by extending the Letter of Credit with Canadian Imperial Bank of Commerce, the dealer agreement with J. P. Morgan and the paying agent agreement with Bankers Trust. As of June 30, 1997, $51 million in Series 1996 commercial paper is outstanding.

G. Pension Costs:

In July 1978, the Massachusetts legislature passed legislation which was enacted as Chapter 487 of the Massachusetts Acts of 1978 ("C. 487") and signed into law on July 18, 1978. This act provided for the establishment of the "Massachusetts Port Authority Employees' Retirement System" (the Plan), a contributory retirement system that is separate from the Massachusetts State Employees' Retirement System. Prior to this enactment, Authority employees were members of the state employees' system, and the funding of the pension liability was on a "pay as you go" method. Pursuant to C.487 the employees' rights and benefits under the state plan were transferred to the new system, and the Authority established a separate pension fund. The Single Employer Plan was established to provide retirement benefits for substantially all employees of the Authority and incidental benefits for their surviving spouses, beneficiaries and contingent annuitants. The Plan is a contributory defined benefit plan to which the Authority and its employees contribute such amounts as are necessary, on an actuarial basis, to provide assets sufficient to meet benefits to be paid to Plan participants.

At January 1, 1997, the Plan's membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	327
Current Members:	
Active	1,118
Inactive	53
Total	1,498

Benefits are paid by the Plan from net assets available for plan benefits. Plan participants are entitled at normal retirement date to benefit payments based upon length of service and earnings levels. Vesting occurs after 10 years of service. Optional payment methods may be elected, including the contingent annuitant method which provides for reduced payments during the life of the plan participant and continued payments to the participant's beneficiary after the death of the participant.

In addition to providing pension benefits, the Authority provides certain health care benefits for retired employees and/or their survivors through insurance company contracts. The Authority recognizes the cost of providing those benefits by expensing the insurance premiums when paid. This expense was $1,420,000 and $1,219,000 for the years ended June 30, 1997 and 1996, respectively.

The Authority funds pension costs based on the actuarially determined annual pension expense which includes current service cost and the amortization, over a 20-year period, of unfunded prior service costs. This annual pension contribution, as actuarially determined, includes a factor for the reimbursement to the Commonwealth for amounts expended by the Commonwealth on account of the Authority's employees retired prior to January 1, 1979.

The Authority's covered payroll for members of the Plan as of the most recent actuarial valuation dates was approximately $50,363,000 as of January 1, 1997. Total payroll for Authority employees was $61,366,000 for the 12 months ended June 30, 1997.

The actuarial cost method utilized to determine contributions to the Plan for the years ended December 31, 1996 and 1995 is the entry age normal-frozen initial liability cost method.

G. Pension Costs, *continued*

The more significant actuarial assumptions underlying the actuarial computations for the years ended December 31, 1996 and 1995 are as follows:

Assumed rate of return on investments	8.0% per annum compounded annually
Nondisabled life mortality basis	1983 Group Annuity Table for males with females set back six years
Withdrawal prior to retirement	The rates shown at the following sample ages illustrate the withdrawal assumption

Rate of Withdrawal

Age	Group 1 and 2	Group 4
25	9.0%	1.8%
30	5.6%	1.7%
35	3.2%	1.3%
45	1.8%	.1%
50	1.5%	N/A
55	N/A	N/A

Salary escalation	5.5% per annum
Rates of retirement	Group 1 and 2 employees are assumed to retire at the later of 63 and 10 years of service Group 4 employees are assumed to retire at the later of age 56 and 10 years of service
Retirement benefits	2.3% per year of service for Group 1, 2.5% per year of service for Group 2 and Group 4
Postretirement cost of living increases	3% per annum compounded annually on the first $9,000 of pension benefits for 1996 and 1995

The amount shown below as "pension benefit obligation" (PBO) is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present valueof credited projected benefits and is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other Public Employee's Retirement Systems Plans. The measure is independent of the actuarial funding method used to determine contributions to the Plan.

G. Pension Costs, *continued:*

At January 1, 1997, the assets in excess of the PBO were $43,481,120 determined as follows:

(in thousands)	
Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits, inactive members and terminated employees entitled to benefits but not yet receiving them, including anticipated cost of living adjustments not yet granted by the Commonwealth's legislature	$ 53,798
Current employees:	
Employee financed	35,783
Employer financed-vested	32,150
Employer financed-nonvested	19,535
Total pension benefit obligation	141,266
Net assets available for benefits	184,747
Assets in excess of pension benefit obligation	$ 43,481

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due and fund operating costs of the Plan. The Plan also amortizes the unfunded liability in level amounts over a period of 20 years.

Total contributions to the Plan were $6,978,350 for the Plan year ended December 31, 1996. This includes employee contributions of $4,202,223 which are based upon a percentage of employee base pay (5% for employees hired before December 31, 1974, 7% for employees hired between January 1, 1975 and December 31, 1983, 8% for employees hired after December 31, 1983 and 9% for employees hired after July 1, 1996 and, effective January 1, 1988, an additional 2% of base pay over $30,000 for those employees hired after December 31, 1978) and employer contributions of $2,776,127 which were made in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed for the Plan's fiscal year beginning January 1, 1996. Employer contributions consisted of (a) $1,392,559 normal cost, (b) $1,269,568 amortization of the unfunded actuarial accrued liability and (c) $114,000 funding for operating costs.

During 1996, the Company changed its plan provision to allow Early Retirement Incentive and Veterans BuyBack Programs. The cost increase related to the Early Retirement and the Veterans BuyBack Programs is estimated to be $2,904,059 and $286,425, respectively, and will be amortized over a 20-year period.

G. Pension Costs, *continued:*

The contributions made by the employees and employer of covered payroll during the last three years are as follows:

Calendar Year	Employees	Employer
1994	7.8%	6.8%
1995	7.8%	6.3%
1996	8.3%	5.5%

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension obligation discussed above.

Set forth below is a table listing ten-year historical trend information of the Plan.

Calendar Year (in thousands)	(1) Net Assets Available for benefits	(2) PBO	(3) Percentage Funded (1) / (2)	(4) Assets in Excess of PBO (1) - (2)	(5) Annual Covered Payroll	Assets in Excess of PBO as a Percentage of Annual Coveredl Payroll (4) / (5)
1987	$ 47,700	$ 43,661	109%	$ 4,039	$21,268	19%
1988	54,212	50,274	108%	3,938	25,975	15%
1989	63,151	58,914	107%	4,237	25,998	16%
1990	76,687	63,937	120%	12,750	29,397	43%
1991	83,228	72,779	114%	10,449	31,575	33%
1992	114,206	83,800	136%	30,406	40,380	75%
1993	129,796	90,313	144%	39,483	38,476	103%
1994	136,071	114,233	119%	21,838	44,496	49%
1995	161,529	124,928	129%	36,601	49,193	74%
1996	184,747	141,266	131%	43,481	50,363	86%

Analysis of the dollar amounts of net assets available for benefits, PBO and assets in excess of the PBO, in isolation, can be misleading. Expressing the net assets available for benefits as a percentage of the PBO provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Public Employee Retirement System (PERS). Trends in assets in excess of PBO and annual covered payroll are both affected by inflation. Expressing the assets in excess of PBO as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due.

G. Pension Costs, *continued:*

The Plan's financial statements have been prepared in accordance with generally accepted accounting principles applicable to governmental units.

Plan investments are valued according to accounting policies adopted by the Trustee. Common stocks traded on national exchanges are valued at the last reported sales price. U.S. Government and corporate bonds are stated at cost adjusted, as applicable, for amortized discounts and premiums. The Plan's investment in venture capital limited partnerships are accounted for using the cost method.

Certain operating expenses incurred by the Plan are funded by the Authority through additional employer contributions. Investment management fees, consulting fees and custodial fees for the Plan are reflected as deductions to investment income.

For the financial statements prepared in accordance with generally accepted governmental accounting principles, pension expense includes current service cost and amortization of past service costs which were determined as of July 1, 1973, over a 25-year period, commencing in 1974. Total pension expense so determined was $2,070,000 and $2,610,000 for the years ended June 30, 1997 and 1996, respectively.

H. Deferred Compensation:

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Authority employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Authority (without being restricted to the provisions of benefits under the plan), subject only to the claims of the Authority's general creditors. Participants' rights under the plan are equal to those of general creditors of the Authority in an amount equal to the fair market value of the deferred account for each participant. It is the opinion of the Authority's legal counsel that the Authority has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The Authority believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

The market value of the deferred compensation plan assets and the total amount of deferred compensation, including income earned, were approximately $26,482,000 and $20,842,000 at June 30, 1997 and 1996, respectively. These amounts are included in the accompanying balance sheets under the captions "assets whose use is limited" and "accounts payable and accrued expenses."

I. Contingent Liabilities and Commitments:

Contractual Obligations for Construction:
Contractual obligations for construction were approximately $198,983,000 at June 30, 1997.

Forward Interest Rate Swap:

In fiscal 1993, the Authority entered into a forward interest rate swap arrangement in the initial notional amount of $71,715,000 which took effect on July 1, 1995 for the seven-year period ending June 30, 2002, with a portion continuing through December 31, 2002. Under this arrangement, the Authority pays interest at 6.405% per annum and receives interest at a floating rate. On April 19, 1995, the Authority issued its $71,715,000 Multi-Modal Revenue Refunding Bonds, Series 1995-A and Series 1995-B (the "1995 Bonds") and on July 3, 1995, the Authority applied the proceeds of the 1995 Bonds to redeem the remaining 1985 Bonds and 1988 Bonds that were not previously advance refunded with the proceeds of the 1993 Bonds. The 1995 Bonds bear interest at a floating rate in order, as nearly as practicable, to match the floating rate interest received under the swap arrangement.

The Authority does not anticipate any losses over the term of this agreement.

Credit Enhancement Agreement:

During fiscal 1991, the Authority entered into a Credit Enhancement Agreement in connection with an unrelated partnership's bond issuance. The bonds were issued to provide financing to the partnership (the Borrower) for construction, which was completed in fiscal 1993, of a conference center and hotel located at Logan Airport. The Credit Enhancement Agreement represents a guarantee by the Authority to pay bondholders up to $9.4 million, in the event the Borrower does not have sufficient funds (as defined) to meet its debt service requirements.

In the opinion of the Authority's management, no advance against the credit enhancement agreement is anticipated during the next 12 months. However, any such advance, then taking the form of a loan from the Authority to the Borrower, would bear interest at 10%.

Third Harbor Tunnel:

The Massachusetts Highway department (MHD) is undertaking a depression of a portion of I-93 in downtown Boston ("Central Artery") and the extension of the eastern terminus of I-90 to the Airport by construction of a new tunnel under Boston Harbor (the "Ted Williams Tunnel"), (collectively, the "CA/T Project").

Recent legislation has been enacted in order to address the construction, operation and financing of the CA/T Project, primarily Chapter 3 of the Acts of 1997, as amended by Chapter 11 of the Acts of 1997 (as so amended, "Chapter 3"). Chapter 3 mandates that the CA/T Project, upon completion of each segment thereof, be transferred to the Massachusetts Turnpike Authority (the "Turnpike Authority"). Among other things, Chapter 3 provides for the acquisition by the Authority of components or segments of the Metropolitan Highway System (the "MHS") pursuant to one or more agreements providing for (i) acquisition by the Authority of certain portions of the MHS, (ii) the assumption by the Authority of operation and maintenance responsibilities for the acquired properties, and (iii) a payment by the Authority to the Commonwealth of Massachusetts of $200 million, plus any additional payments (up to an additional $100 million) recommended by a joint asset assessment study, for acquisition of additional assets and annual contributions for operation and maintenance of designated portions of the MHS by the Authority to the Turnpike Authority, which may either be by direct payments or equivalent in-kind contributions. The payment schedule for the $200 million for assets of commensurate value is set forth in a memorandum of understanding between the Authority and the Commonwealth of Massachusetts acting through the Executive Office of Administration and Finance (the "MOU"). The MOU further provides that the potential additional $100 million payment by the Authority is not to be paid until after July 1, 2003. The payment schedule for the $200 million payment, which has been incorporated in the Authority's FY1998-2003 Capital Program, is as follows: $12.1 million, $30.7 million, $52.2 million and $105 million for fiscal years 1998, 1999, 2000 and 2003 respectively. Pursuant to Chapter 3 and the MOU, the Authority expects to enter into an Asset Transfer Agreement with the Turnpike Authority and MHD describing the assets to be transferred to and maintained by the Authority and the schedule of payments to be made by the Authority in consideration therefor.

On October 3, 1991, the Authority and MHD entered into a Sale/Mitigation Agreement (the "Agreement") to establish a framework for land acquisitions by the MHD for the Tunnel Project. Specifically, the Agreement provides for acquisitions of Authority land by purchase by the Commonwealth, coupled with mitigation by the Commonwealth of the effects of such acquisitions. Mitigation will include, for example, provisions of replacement parking and construction of temporary roadways. In addition, the Agreement provides that the Authority will retain substantial rights with respect to the land acquired by the Commonwealth, including, for example, air and development rights over the below ground and surface portions of the Tunnel Project. The Authority expects that the acquisitions will not ultimately result in any material change in its financial position.

I. Contingent Liabilities and Commitments, *continued:*

Seaport Bond Bill:

The Seaport Bond Bill was enacted on February 14, 1996 and provides authorization for funding by the Commonwealth of $15 million towards the non-federal share of the cost of completing the Boston Harbor Navigation Improvement Project, including without limitation: the cost of dredging the Authority's deep cargo berths; all costs associated with the preparation of the environmental studies and reports; and the costs related to the design and relocation of the MWRA pipeline in the Chelsea Creek. The Bond Bill requires the Authority to pay twenty-five percent (25%) of the non-federally funded costs of the Project. The Authority has already paid or committed approximately $5 million of the non-federal share of the Project and expects that any future costs will amount to approximately $500,000. A second provision of the Seaport Bond bill will provide a mechanism for funding improvements to the Massachusetts rail transportation network allowing rail shipment of double stack cargo from the Allston yards in Boston to points west, which is anticipated to encourage expanded container shipments through the Port of Boston. The statute requires that the Authority provide up to fifty percent (50%) of the cost of improvements to the rail line from Framingham to the Allston yard in Boston permitting double stack shipments, at an estimated cost to the Authority of approximately $25 million. Expenditure of funds will not occur until the execution of the Master Agreement, as defined by the statute, between the Commonwealth and the participating railroads.

Mitigation Agreement:

On June 30, 1993 the Authority entered into a Mitigation Agreement with one municipality and two community organizations which addressed measures to be taken to mitigate environmental impacts of the operation of Logan Airport. The enforceability of the Mitigation Agreement, and the specific actions which the Authority was required to take under it, were the subject of a lawsuit by the two community organizations which was dismissed with prejudice on August 14, 1997. Follow up negotiations between the Authority, the two groups which signed the Agreement, and six other community organizations which did not sign the Agreement, resulted in agreements whereby the Authority undertakes the following: (i) completion of the Residential Sound Insulation Program for homes within the 65 ldn requirement in East Boston and Winthrop; (ii) design, construction and operation of the Airport Edge Buffer program at a cost not to exceed $15 million as environmental mitigation for capital projects to be constructed at Logan Airport; (iii) dedication of a minimum of $4.8 million and up to $9.6 million to a newly established East Boston Foundation in partial satisfaction of the Authority's obligations under the Boston Agreement for Payments In Lieu of Taxes, as described in Note J below; (iv) additional payments under the Winthrop Agreement for Payment in Lieu of Taxes, as described in Note J below; (v) a specific plan for the operation, maintenance and security of the waterfront park on Pier 4 and the associated uplands created under Chapter 349 of the Acts of 1986, as amended; and (vi) adoption by the Authority of a Statement of Environmental Policy.

J. Payments In Lieu of Taxes:

The Enabling Act authorizes and directs the Authority, subject to certain standards and limitations, to enter into agreements (collectively, the "PILOT Agreements") to make annual payments in lieu of taxes to Boston, Chelsea, and Winthrop. In fiscal 1992, the Authority's obligation to Chelsea for annual in lieu of tax payments through 2012 was satisfied by a payment of $5,000,000.

In fiscal 1994, the Authority entered into an extension of and amendment to its agreement with Winthrop (the "Winthrop PILOT Agreement") which extended the base in lieu of taxes payments through fiscal 1999 and added further components to such payments: a parks/related facilities portion, payable through fiscal 2011, of $150,000, to be adjusted annually based upon the percentage increase in the number of annual air passengers at Logan Airport; and a tree planting portion of $12,500, payable through fiscal 1998. In fiscal 1995, the Authority entered into a comprehensive Amended and Restated Payment-in-Lieu-of-Taxes Agreement with the City of Boston (the "Boston PILOT Agreement"), with a term commencing on March 14, 1995 and ending June 30, 2005. Pursuant to the Boston PILOT Agreement, the Authority will pay to the City the sum of $10,000,000 annually, which payment will be increased by the annual percentage change in the consumer price index, provided that such increase shall be no less than 3%, nor greater than 7%, per year.

The Authority's Enabling Act, the Trust agreement and the PILOT Agreements provide that annual payments under the PILOT Agreements may not exceed the balance of revenues remaining after deposits to the 1978 Debt Service Fund, payment of operating expenses, deposits to the 1990, 1992, 1993 and 1995 Interest and Sinking Funds and deposits to the Maintenance Reserve Fund.

For additional information regarding PILOT refer to Note M.

K. Litigation:

Potential Logan Airport Soil and Groundwater Contamination:

In April 1991, the Massachusetts Department of Environmental Protection ("DEP") sent the Authority a Notice of Responsibility ("NOR") under M.G.L. c. 21E, Section 5(a) alleging that there have been releases of oil and hazardous materials at Logan Airport and that, as the owner of Logan Airport, the Authority is a "responsible party" liable for the costs of investigating, assessing and remediating soil and groundwater contamination at the Logan Airport site. Following further assessment activities at Logan Airport, DEP issued another NOR dated March 9, 1994, in which DEP concluded that Logan Airport is not a single contaminated site but rather the location of thirty-one (31) separate and discrete contaminated sites. Assessment and remediation of soil and groundwater contamination at the Logan Airport contamination sites identified by DEP is continuing. While the full nature and extent of the contamination and necessary remedial and cleanup measures have yet to be determined, response costs under c. 21E may be substantial. The Authority, however, expects to be able to recoup much of its costs of compliance with c. 21E from third parties who are responsible for the contamination and from liability insurance carriers who provided coverage to the Authority. To date, the Authority has recovered in excess of six million dollars from third parties and insurers and has obtained substantial commitments from third parties to conduct further c. 21E compliance measures at a number of the Logan Airport contamination sites identified by DEP. Moreover, the Authority has settlement agreements in principle with a number of other potentially responsible parties that will involve additional substantial cash payments and performance. It may be necessary for the Authority to initiate litigation against those remaining responsible parties that have refused to either agree to perform remedial work or reimburse the Authority. The Authority expects to recover any remaining costs of compliance through rates and charges levied upon users of the Airport.

Mitigation Agreement:

Litigation seeking to enforce a 1993 Mitigation Agreement, described in Note I above, was dismissed with prejudice by stipulation in August, 1997.

The Authority is also a defendant in a number of legal proceedings arising in the normal course of business. Management, after reviewing all actions and proceedings pending against or involving the Authority with legal counsel, believes that the aggregate liability of loss, if any, resulting from the final outcome of those proceedings will not materially affect the Authority's financial statements.

L. Leases:

The Authority leases a major portion of its Aviation and Port Properties to various tenants. Most of these operating leases provide for periodic adjustments to rental rates. In addition, certain of the lease agreements contain provisions for contingent payments based on a specified percentage of the tenant's gross revenue. Rental income from contingent payments received under these provisions was approximately $29,957,000 and $27,936,00 for 1997 and 1996, respectively.

Minimum future rental income, excluding contingent rentals, from noncancelable operating leases as of June 30, 1997 are:

Year	Amount (in thousands)
1998	$23,726
1999	20,654
2000	18,125
2001	17,407
2002	14,140
Thereafter	342,335
Total	$436,387

The Authority has also entered into operating leases as the lessee. The following is a schedule by years of future minimum rental payments under noncancelable operating leases as of June 30, 1997:

Year	Amount (in thousands)
1998	$16,105
1999	7,065
2000	7,038
2001	4,914
2002	4,914
Thereafter	57,842
Total	$97,878

Rent expense was $16,732,000 and $15,719,000 for 1997 and 1996, respectively.

M. Subsequent Events:

In July 1997, the Board voted to increase the commercial paper program and the associated Letter of Credit with Canadian Imperial Bank of Commerce to $80 million, and to offer both a non-AMT program (called the 1996 Series) and an AMT series (called the 1997 Series.) The sum of the two programs will not exceed the lesser of 10% of the outstanding principal on the Authority's outstanding debt or $80 million. On September 9, 1997, the Authority issued $16 million in Series 1997 commercial paper that is subject to the alternative minimum tax.

In August, 1997, the Authority and Winthrop entered into a further amendment of the Winthrop PILOT Agreement which added two further components to such in lieu of taxes payments: an Ingleside Park/Related Facilities Portion consisting of an annual payment of $383,333, payable each September 1 beginning in fiscal year 1998 through fiscal year 2000; and an Additional Environmental Portion consisting of an annual payment of $150,000 payable each September 1 beginning in fiscal year 2001 through fiscal year 2005. Neither the Ingleside Park/Related Facilities Portion nor the Additional Environmental Portion are subject to the escalation provisions of the Winthrop PILOT Agreement.

In August, 1997, the Authority and community groups associated with the Mitigation Agreement (see Note I above) entered into agreements which provide for additional payments under the Boston PILOT Agreement, from a minimum of $4.8 million and up to $9.6 million for the benefit of the East Boston Foundation, with payments to be made as milestones associated with the modernization of Logan Airport, are reached. These additional payments are not subject to annual escalation provisions.

On August 7, 1997 the Authority issued $140,465,000 in Series 1997-A General Revenue Bonds to fund the construction of the West Garage, Central Garage Modifications, Logan Roadway Betterments, and various airfield improvements, as well as $19,330, 000 in Series 1997-C refunding bonds that refunded a portion of the 1990 bonds.

On August 21, 1997, the Authority issued $43,730,000 in Series 1997-B General Revenue Bonds to fund the construction of the non- PFC portion of the Terminal E Modification, electrical upgrades to serve the needs of Logan 2000, the completion of the BIF garage, and Cargo Building No. 63.

Properties and Performance FY 97

Gross Revenues, Authority-wide	$ 299.8 million
Net Income	$ 42.3 million

Logan International Airport, East Boston

Total Passengers	25 million
Domestic	21.3 million
International	3.5 million
Total Pounds of Cargo and Mail	923.9 million

L.G. Hanscom Field, Bedford

Total Operations (Takeoffs/Landings)	173,259

Tobin Memorial Bridge

Total Vehicle Crossings	26.3 million

The Waterfront - Port Industry Facilities

Moran Container Terminal, Charlestown	
Container Volume	45,431*
Salt	126,766
Conley Terminal, South Boston	
Container Volume	31,332
Automobile Processing	50,258
Massachusetts Marine Terminal and Former Navy Recreation Property, South Boston	
Automobile Processing	13,215
Army Base, South Boston	
Cement Handled	78,855
Waterfront Properties	
Fish Pier, South Boston	
Fish Processed, pounds	12 million
Fish Landed, pounds	5 million
Black Falcon Cruise Terminal, South Boston	
Total Cruise Passengers (cruise season-1996)	69,899

*includes "Over the Road" volumes.

World Trade Center Boston, South Boston

Exhibition and conference space at Commonwealth Pier leased to private developers.

Constitution Plaza, Charlestown

Multi-purpose office and retail space at Hoosac Pier leased to private developers.

East Boston Shipyard, East Boston

Lease to private entity for ship repair and marine industrial development.

Equal Opportunity For All

In support of the basic principles of the Massachusetts Executive Orders, and in compliance with state and federal laws on affirmative action, Massport is committed to a program of effective affirmative action through institutionalized procedures that ensure equal opportunity in personnel practices, daily operations and business transactions.

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